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Malaysia: Political Transition and Implications for U.S. Policy

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Bruce Vaughn
Analyst in Southeast and South Asian Affairs
Foreign Affairs, Defense and Trade Division

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Summary

This report analyzes political and economic developments in Malaysia and assesses their impact on U.S. interests. The bilateral relationship between the United States and Malaysia is generally positive and constructive, particularly in the area of trade. Malaysia is a key trading partner of the United States and is an effective and cooperative regional player in the war against terror. The United States and Malaysia also have constructive education and informal defense ties including commercial access to Malaysian ports and repair facilities. Despite these positive dynamics, the bilateral relationship has at times been strained. Differences between the two nations stem from disagreements between Malaysia's former Prime Minister Mahathir Mohamad and the United States over such issues as the internal suppression of dissent in Malaysia, the Israeli-Palestinian conflict, Iraq, globalization, Western values and world trade policy. Relations have improved since Abdullah Badawi became prime minister. Prime Minister Badawi's visit with President Bush in Washington in July 2004 was viewed by observers as constructive, setting a positive tone for future bilateral relations. This report sets the political transition in Malaysia of 2003/04 within an historical context and discusses key aspects of the bilateral relationship including trade, counter-terrorism cooperation, defense ties and Malaysia's external posture as it affects American interests. This report will be updated as circumstances warrant.

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Malaysia: Political Transition and Implications for U.S. Policy

U.S. relations with Malaysia are cooperative and improving with both countries sharing interests in maintaining regional stability, countering terrorism, dealing with militant Islam, developing close trade and investment relationships, securing the safety of ships passing through the Strait of Malacca, expanding military cooperation, and facilitating educational exchanges. The selection of the new Prime Minister Badawi has provided opportunities for the United States to improve diplomatic and political relations with this Southeast Asian nation. Malaysia plays a key role (along with Indonesia) as a moderate secular Islamic nation whose experience and cooperation could be invaluable in coping with Islamic extremism, countering terrorism, and exerting a moderate influence on the Islamic community in Southeast Asia. This report provides an overview of recent political and economic developments in Malaysia, and examines implications for U.S. policy in terms of bilateral trade, military cooperation, counterterrorism cooperation, and educational ties.

Political and Economic Developments

On October 31, 2003, former Prime Minister Mahathir Mohamad turned over power to his former Deputy Prime Minister Datuk Seri Abdullah Badawi,¹ ending 22 years of rule by Mahathir. Prime Minister Abdullah Badawi met with President Bush on July 19, 2004, during a three-day visit to the United States. Badawi's visit reportedly sought to further strengthen the bilateral relationship between Malaysia and the United States following this important transfer of political leadership.² While Badawi has not refrained from criticizing United States' policies, particularly on Iraq and the Middle East, he has done so in a relatively diplomatic manner as compared to his predecessor former Prime Minister Mahathir Mohamad.³ Malaysian Foreign Minister Syed Hamid Albar reportedly stated that Badawi would "exchange views on how we can deal with Islamic issues, how we can avoid the perception of prejudice, perception of marginalization of Muslims."⁴ Though Malaysia has opposed the U.S. led wars in Afghanistan and Iraq, it is considered a valuable ally in the war against terror in Southeast Asia. Badawi reportedly also focused on strengthening already strong bilateral trade and investment ties between the United

¹ Michael Vatikiotis, "Farewell Dr. M," *Far Eastern Economic Review*, 9 October 2003.

² Malaysian Prime Minister to Meet with U.S. President 19 July," *BBC Monitoring Asia Pacific*, July 6, 2004.

³ "Malaysia's Quiet Revolution Wins Friends Abroad," *Agence France Presse*, July 7, 2004.

⁴ "Malaysian Leader to Tell Bush Terrorism Has Increased," *Associated Press*, July 9, 2004.

States and Malaysia.⁵ Malaysia is currently chair of the Organization of Islamic Countries as well as the Non-Aligned Movement.

During his visit, Prime Minister Abdullah Badawi and President Bush reportedly discussed the need to move the bilateral relationship forward and rebuild confidence. Prime Minister Badawi reportedly told the president that “we need to find the moderate center, we must not be driven by extremist impulses or extremist elements ... we need to bridge the great divide that has been created between the Muslim world and the West.”⁶ Badawi also stated that Malaysia would send a medical team to help in Iraq.⁷ During Badawi’s visit in July 2004 President Bush expressed his opinion that “The United States and Malaysia enjoy strong bilateral ties, ranging from trade and investment relationships to defense partnerships and active cooperation in the global war on terrorism. As a moderate Muslim nation, Malaysia offers the world an example of a modern, prosperous, multi-racial, and multi-religious society.”⁸

The transition from Mahathir to Badawi was effectively consolidated in the March 21, 2004 elections which expanded the ruling Barisan National (BN) coalition’s hold on parliament to 90% of the seats. The Barisan National coalition had 77% of seats after the 1999 elections. Prime Minister Badawi heads the United Malays National Organization (UMNO) which is the key party in the Barisan National coalition which includes parties representing the minority ethnic Chinese and Indian communities. Barisan National also increased its share of votes to 64% from 57%.⁹ The main opposition party, the Pan-Malaysia Islamic Party (PAS), which has an Islamist agenda, lost voter confidence including in its area of traditional support in northeast peninsular Malaya. The government’s coalition now controls 11 of 12 state governments. The election has been viewed by observers as a vote of confidence by Malaysians in Badawi’s relatively moderate form of Islamic practice as opposed to the hard-line approach of PAS.¹⁰

Malaysia’s political transition is of interest to U.S. policy makers for a number of reasons including the potential moderate role that Malaysia could play in the Islamic world. Malaysia is a moderate, majority Muslim state that can play a constructive role in the struggle against militant Islamic extremism despite its sometimes anti-Western and anti Jewish rhetoric. Malaysia condemned the attacks

⁵ “Abdullah’s Leadership Style Gets Positive Response From Leaders,” *Bernama Daily*, July 9, 2004.

⁶ Speech by The Honourable Abdullah Ahmad Badawi, Prime Minister of Malaysia, Dinner Hosted by the U.S.- ASEAN Business Council, Washington, DC July 19, 2004.

⁷ Nora Boustany, “Vigilant at Home, Malaysia is Eager to Help Aid Iraq,” *Washington Post*, July 21, 2004.

⁸ President Bush, Written Remarks to the U.S. ASEAN Business Council Dinner honoring Prime Minister Badawi, July 19, 2004.

⁹ “Malaysia’s Election: Bravo Badawi,” *The Economist*, March 27, 2004.

¹⁰ See Anthony Smith, “Malaysia’s 2004 Elections: Mahathir’s Successor Succeeds,” *Asia Pacific Security Studies*, April 5, 2004 and “So Much for the New Broom,” *The Economist*, April 3, 2004.

of 9/11 and has supported the campaign against terrorism. Malaysia, a state where Islam is the official religion, is seeking to play a larger international role through such organizations as the 57-member Organization of the Islamic Conference (OIC), Non-Aligned Movement (NAM), and the Association of Southeast Asian Nations (ASEAN).¹¹ Malaysia assumed the OIC chair in 2003 and hosted the OIC summit from 16 to 18 October 2003. While Malaysia may be able to exert a moderate influence in the Islamic world, and particularly with the Islamic community in Southeast Asia, its impact among Arab states is thought to be limited. Southeast Asian Islamic populations in Indonesia, Malaysia, Brunei (and to a lesser extent in the Philippines, Thailand, Burma and Singapore) constitute a third of the world's Islamic population and are experiencing a spiritual, social, and cultural revival at a time when there is also increased radicalization in the region as demonstrated by such groups as Jemaah Islamiya (JI), Abu Sayaf, and the Laskar Jihad. Some analysts fear that perceived Western interference could increase anti-Western and anti-American sentiment.¹²

Malaysia In Brief

Population: 23.3 million, growth rate 1.86 % (2003 est)
Area: 127,316 sq. miles (about the size of New Mexico)
Capital: Kuala Lumpur
Ethnic Groups: Bumiputeras 58% [Malay 47%, Indigenous 11%], Chinese 24%, Indian 7%, Non-citizens 7% others 4%
Literacy: 94%
Religion: Muslim, Buddhist, Confucian, Taoist, Christian, Hindu, Sikh, Baha'i
GDP growth: 5.3% for 2003 and 6.8% projected for 2004
Per capita GDP: \$9,300 purchasing power parity (2002 est.), \$4,536 nominal in 2004
Inflation: 1.3 % (2004)
U.S. Trade: 22.2% of Malaysia's exports go to the U.S. while 14.4% of its imports come from the U.S. It is the 10th largest trading partner of the United States.
Sources: U.S. Department of State, CIA World Fact Book, Economist Intelligence Unit, Global Insight

Historical Context

Many of the political cleavages of Malaysian society, which continue to have relevance to today's political dynamics, find their root in Malaysia's colonial past. Malaysia inherited a diverse demographic mix from the British. The British added ethnic Chinese and Indians to the Malay and other indigenous populations of peninsular Malaya, Sabah, and Sarawak. The demographic composition of Sabah and Sarawak includes a higher percentage of indigenous groups, such as the Iban. Malays, and other indigenous groups, are known as Bumiputeras, or "sons of the soil." Together they comprise some 58% of the population as opposed to the Chinese (24%) and Indian (7%) groups. Traditionally, ethnic Chinese and Indians have controlled a disproportionately greater share of the nation's wealth than Bumiputeras.

¹¹ "Mahathir's Unity-Through Oil Proposal Underscores OIC Weakness," *Stratfor*, October 3, 2002.

¹² S. MacDonald and J. Lemco, "Political Islam in Southeast Asia," *Current History*, November, 2002.

Malaysia has a complex history of inter-communal political dynamics. The Malaysian Union created by the British Labor Government after World War II provided for common citizenship. Fears among the Malays that they could not compete with the more commercially-minded Chinese led to the creation of the Federation of Malaya in 1948, which was biased in favor of the Bumiputeras. At independence in 1957, there was an understanding that Malays would exert a dominate position in political life in Malaya (Sabah and Sarawak joined Malaya to form Malaysia later in 1963 and Singapore left the Federation in 1965), while ethnic Chinese and Indians would be given citizenship and allowed to continue their role in the economy.¹³

This accommodation between groups has not always been tranquil. Between 1948 and 1960, the Communist Party of Malaysia, which was largely comprised of ethnic Chinese, waged a guerilla war against the British. This came to be known as the Malayan Emergency. The Internal Security Act (ISA), which continues to be used to suppress groups that threaten the regime, originally was put in place by the British to combat communist subversion. The Special Branch, which Malaysia inherited from the British, continues to act as the primary intelligence and security unit under the Royal Malaysian Police. During The Emergency, Malays generally sided with the British against the communists whose ranks were drawn largely from the Chinese community. Somewhat like the experience in Vietnam, leftist guerillas who helped the British and Allied forces opposing Japan's occupation, felt after the war that Malaysia remained for all practical purposes a colony ruled indirectly by Britain through the conservative Malay Sultans who exercised little real political power.

By the mid 1950s, the insurrection had collapsed. Added to this history of inter-communal strife were the riots of 1969 in which approximately 200 were killed. Most of those killed were ethnic Chinese. Malaysia's most severe race riots followed the Japanese occupation at the end of World War II. Malaysia's turn towards increased authoritarianism can also be traced to 1969, when Parliament was suspended and an emergency was declared.¹⁴

The New Economic Policy (NEP), instituted in 1971 following the 1969 riots, discriminated in favor of the Bumiputera majority via a kind of quota system in order to increase their share of the economic wealth of the country. The New Development Policy (NDP) replaced the NEP in 1990. The NDP retained NEP goals, such as 30% Bumiputera control of corporate assets. Prime Minister Mahathir's subsequent *Vision 2020* policy has similar elements but is more inclusive and does more to foster national ethnic unity.¹⁵ Malaysia appears to be dependent on an expanding economy to be able to disproportionately favor Bumiputeras while not undermining the economic position of ethnic Chinese and Indian groups in absolute terms. In this way, Malaysia's social harmony may be linked to economic growth. For this reason,

¹³ Harold Crouch, *Government and Society in Malaysia*, (Ithica: Cornell University Press, 1996), p.157.

¹⁴ Crouch, p.26.

¹⁵ YAB Dato' Seri Dr. Mahathir Mohamad, *Vision 2020*, (Kuala Lumpur: Institute of Strategic and International Studies, 1991).

periods of economic stagnation could carry the prospect of eroding the delicate balance between ethnic groups in Malaysia.

Economy

Malaysia has undergone significant and rapid economic development. It has developed from a colonial supplier of tin and rubber into a middle-income country with a more diversified economy that includes palm oil and a substantial electronics sector. As of April 2003, electronics accounted for 49.4% of Malaysia's total exports.¹⁶ At independence, it ranked below Haiti in per capita income at \$227. An average rate of growth of 7% from 1969 to 2000 and 5.3% in 2003 allowed Malaysia to realize nominal per capita income of \$4,563 in 2003 and a per capita purchasing power parity income of \$9,300 by 2002. The financial crisis of 1997-98 led to a negative (-7.4%) growth rate for Malaysia in 1998.¹⁷ Prime Minister Mahathir's decision to restrict capital flows rather than follow the IMF's advice to let the ringgit float downward against the dollar, as in the case of the Thailand and Indonesia, is now generally regarded as a success. Since 1998, the Malaysian ringgit exchange rate has been set at 3.8 to one United States dollar.

Much of Malaysia's economic development is driven by international trade. Malaysia's economy had a sluggish rate of growth of only 0.3% in 2001.¹⁸ While Malaysian economic growth slowed due to the international downturn in the information technology sector and the Severe Acute Respiratory Syndrome (SARS) outbreak, it has since rebounded and is now projected to reach 6.8% for 2004.¹⁹ A \$1.9 billion fiscal stimulus package initiated in March 2003 introduced a number of measures to liberalize the economy and lift restrictions on foreign investment.²⁰ Growth is being driven by a 3% increase in aggregate domestic demand, a 5.8% expansion in gross exports of goods and a 7.2% increase in public sector consumption.²¹ Mining (10.5%) and agriculture (10.4%) have demonstrated the strongest growth during the recovery, while services grew by 2.8% and construction by 1.4%.²²

Part of former Prime Minister Mahathir's vision for Malaysia is for it to become a developed nation by the year 2020. Malaysia has sought to achieve this through such projects as the Multimedia Super Corridor (MSC) which was launched in 1996

¹⁶ "Malaysian Trade Surplus Expands," *Asian Wall Street Journal*, July 2, 2003.

¹⁷ "Malaysia: Country Report," *Economist Intelligence Unit*, June 2003.

¹⁸ "Malaysia: Country Report," *Economist Intelligence Unit*, June 2003.

¹⁹ Global Insight data, 2004.

²⁰ See M. Vatkotis, "The Last Hurrah," *Far Eastern Economic Review*, July 3, 2003 and Fui Soong, "AMCHAM's Commentary on the Stimulus Package," *AMCHAM Dateline*, July, 2003, p.11.

²¹ "Press Release for the Second Quarter 2003 GDP," *Siaran Akhbar*, August 27, 2003.

²² "Mining, Agriculture Lead the Way," *The Star*, August 28, 2003.

in the hope of allowing Malaysia to “leapfrog into the information age.”²³ The MSC is designed to attract information technology companies and investment to Malaysia and help it to further diversify its economy. The new Federal Government Administrative Center, Putrajaya, as well as the multimedia center, Cyberjaya, are situated within the MSC which is located outside Kuala Lumpur.

Internal Politics

Malaysia is a Constitutional Monarchy, but of an unusual kind, whose structure includes 13 states and three federal territories. Every five years, the nine hereditary Sultans elect one from among their group to be the Yang di Pertuan Agong, a traditional title equating to a King. The Agong exercises limited authority and acts on the advice of the Prime Minister, Parliament and the Cabinet. The Prime Minister is the head of the Federal Government which has 25 ministries. Out of a total of 13 states four are ruled by State Governors appointed by the Federal Government. In the nine other states, the hereditary Sultan fulfills this function. Each state has a state legislature. The lower house of Malaysia’s Parliament, the Dewan Rakyat, has 193 members elected for terms not to exceed five years. The upper house, the Dewan Negara, has 43 members appointed by the King and 26 elected members with two from each state.

Malaysia is an “ambiguous, mixed”²⁴ or “semi”²⁵ democracy that has both democratic and authoritarian elements. The constitution is largely democratic and provides for regular elections that are responsive to the electorate. The government is based on a parliamentary system, and the judiciary is designed to be independent. Despite this democratic structure, authoritarian control limits the ability of the opposition to defeat the ruling coalition at the polls.²⁶ The ruling coalition is known as the Barisan Nasional or the National Front. It includes the United Malays National Organization (UMNO), the Malaysian Chinese Association (MCA), and the Malaysian Indian Congress (MIC). The opposition Barisan Alternatif (BA) includes Party Islam Se-Malaysia (PAS), the National Justice Party (NJP), and the Malaysian Peoples Party (PRM). UMNO represents mainstream ethnic Malay interests and is the most influential party in Malaysia today despite the *reformasi* challenge mounted by former Prime Minister Mahathir’s former Deputy Prime Minister Anwar Ibrahim in the 1999 elections, at which time Malay support for UMNO is thought to have dropped from 61% to 42%.²⁷ The Malaysian administration, under Prime Minister Mahathir and Deputy Prime Minister Badawi, promotes a moderate form of Islam

²³ “Multimedia Super Corridor,” Multimedia Development Corporation Brochure, 2003

²⁴ Crouch, p. 4-5.

²⁵ William Case, “Malaysia’s General Elections in 1999: A Consolidated and High-Quality Semi-Democracy,” *Asian Studies Review*, March, 2001.

²⁶ Crouch, p. 5.

²⁷ Bridget Welsh, “Real Change? Elections in the Reformasi Era,” in E. T. Gomez, *The State of Malaysia: Ethnicity, Equity and Reform*, (London: Routledge Curzon, 2003)

under a secular polity and opposes the rise of Islamic extremists whose policies are more closely associated with PAS.²⁸

The ruling Barisan National Front, under Mahathir's leadership, has used the power of the state, including the ISA, to thwart political gains by PAS, which advocates a more conservative and less modern view of Islam than the dominant version. At present PAS's influence is limited to the northeast states of Kelantan and Terengganu. PAS has indicated its intention to implement Islamic criminal law in Terengganu in direct opposition to the Federal government.²⁹ Kuala Lumpur cut off oil royalties to the PAS state government in Terengganu which previously made up four-fifths of the state budget. The funds have since been distributed directly by the federal government.³⁰ Former Prime Minister Mahathir announced that in February 2003 state funding to religious schools was to be stopped. It is thought by some that by taking religion out of the schools, the Islamic opposition will be weakened.³¹ PAS' popularity has declined in part as a result of a backlash against Islamic extremism in the post 9/11 environment in Malaysia.³²

Political Transition

The political transition from Mahathir to Badawi has led to the improvement of U.S.-Malaysian relations. Prime Minister Abdullah Badawi is Malaysia's fifth Prime Minister. Media reports have speculated that Badawi, who was first elected to Parliament in 1978, will have to strike a balance between providing continuity of leadership, that will produce stability, and meeting expectations for a more open and consultative style of government. Badawi has pledged to work with the Barisan Nasional to realize the policy goals articulated in *Vision 2020*.³³ It is thought that Badawi's political legitimacy will at least in part be dependent on his ability to deliver sound economic growth and to counter the perceived rise of Islamic extremism in Malaysia.³⁴ Further, it is believed that the leadership transition in UMNO offers the potential for more democratization.³⁵

²⁸ For a more detailed discussion of these dynamics see William Case, "Deep Insecurity and Political Stability: Inside Mahathir's Malaysia," in Bruce Vaughn ed. *The Unraveling of Island Asia?* (Westport: Praeger Publishers, 2002).

²⁹ "Malaysian Opposition Leader Defies Prime Minister, Says Harsh Islamic Laws Will be Enforced," *Associated Press*, September 27, 2003.

³⁰ Lorien Holland, "Party of Islam? Well Sort of," *Far Eastern Economic Review*, June 28, 2001.

³¹ L. Lopez, "Let us Learn," *Far Eastern Economic Review*, April 17, 2003.

³² S. Jayasankaran, "Lost Ground," *Far Eastern Economic Review*, March 21, 2002.

³³ "Abdullah Pledges to Work Hard to Make Vision 2020 a Reality," *New Straits Times*, September 8, 2003.

³⁴ Bridget Welsh, "Elite Contestation, Political Dilemmas and Incremental Change," Woodrow Wilson Center, July 24, 2003.

³⁵ Welsh, "Real Change? Elections in the Reformasi Era," p.188.

Badawi is thought to be a “personable, thoughtful and consensus oriented individual”³⁶ and to have a “mild, incremental, consensual” personal style that will differ significantly from the more “fiery” tone of former Prime Minister Mahathir and will “likely improve relations with the West.”³⁷ It is thought that his personal style will lead Badawi to use less strident language, as compared to Mahathir, when Malaysia and the United States differ in the future. These observations appeared to be validated during Badawi’s July 2004 visit which appeared to improve the atmosphere of the bilateral relationship.

Badawi’s respected religious background³⁸ has helped him counter the rising popularity of PAS and the forces of Islamic extremism. Some analysts questioned Badawi’s leadership ability and suggested that if Badawi is perceived as being unsuccessful in curbing the rise of Islamic extremism, foreign investors could move away from Malaysia, leading to an economic downturn that has the potential to disrupt the existing social balance.³⁹ Thus far his electoral victory over PAS indicates that Badawi has done much to consolidate his position in Malaysia.

Malaysia’s External Posture

Malaysia has placed much emphasis on regional cooperation despite differences with regional states. In the past, Malaysia and the Philippines have differed over the Philippines’ claim to parts of Sabah. Indonesia and Malaysia came into conflict as a result of Indonesian military raids over the border in Borneo in 1963. These were part of its policy of *confrontasi* and repelled by Malaysian and Commonwealth forces. Malaysia remains a member in the Five Power Defense Arrangements along with Australia, New Zealand, the United Kingdom, and Singapore which has its roots in Malaysia’s colonial past. Malaysia was a founding member of ASEAN in 1967 and more recently was a strong advocate for expanding ASEAN to include Burma, Vietnam and Laos. It has been an active member of the Non-Aligned Movement, the OIC, and the Commonwealth. Malaysia has also sought to play a more influential role in ASEAN. Indonesia’s current internal focus and Prime Minister Mahathir’s status as the senior leader of ASEAN were factors that supported the prospect. Malaysia’s proposal to build and fund an administrative center for the ASEAN + 3 grouping demonstrated Malaysia’s desire to play a larger regional role but was rejected by ASEAN in 2002.⁴⁰ Malaysia has ongoing disputes with Singapore over

³⁶ Welsh, July 24, 2003.

³⁷ Amy McCreedy, “Passing the Mantle: A New Leadership for Malaysia,” *Asia Program Special Report, No. 116*, The Woodrow Wilson International Center for Scholars, Washington, DC, September, 2003.

³⁸ Badawi’s father and grandfather were Islamic religious scholars. Badawi himself has a degree in Islamic Studies.

³⁹ Michael Vatikiotis, “Extremists, Step Aside,” *Far Eastern Economic Review*, September 5, 2002.

⁴⁰ “ASEAN Rift May Thwart Malaysia’s Designs on Regional Power,” *Stratfor*, July 31, 2002.

the supply of water to Singapore.⁴¹ The current political transition in Malaysia, Malaysia's relatively small size and a lack of consensus in ASEAN to follow a Malaysian lead, place limits on the extent to which Malaysia can assume a leadership role within ASEAN and the region.

Malaysia has significant interest in the hydrocarbon potential of the South China Sea. This has most recently put Malaysia in conflict with Brunei over the Baram Delta off the coast of Sabah and Sarawak. In July 2002, independent U.S. contractor Murphy Oil, working for Malaysia's state oil company Petronas, discovered the Kikeh field which is estimated to hold 700 million barrels of oil.⁴² This represents 21% of Malaysia's current reserves which are projected to run out in 15 years.⁴³ Malaysia, the Philippines, China, and Vietnam have conflicting claims over the Spratly Islands and the South China Sea. Though continuing, this conflict has been less contentious in recent years than it was in the 1990s.

The attitudes of Malaysia and other ASEAN states towards China have undergone a significant shift over the past two decades.⁴⁴ Relations with communist China were once characterized by much suspicion. Malaysia normalized relations with China in 1974. In recent years issues of economic competition and cooperation have been more of a concern to ASEAN states than security concerns.⁴⁵ China currently is said to be thought of "as more of an opportunity with concomitant challenges, rather than as a threat" as it was as recently as 1999 when China fortified Mischief Reef in the South China Sea which it had occupied in 1994.⁴⁶ Malaysia constructed a concrete building on Investigator Shoal in the Spratlys in 1998. ASEAN states' perceptions could change again should China more actively reassert its claims in the South China Sea or expand its already large presence in Burma. For the time being, attention on Sino-ASEAN ties is focused on the proposed China-ASEAN Free Trade Area. Then Chinese Premier Zhu Rongji proposed the FTA in November 2000.⁴⁷

Implications for U.S. Policy

Relations between Malaysia and the United States are generally constructive, particularly with regard to counter-terrorism cooperation, trade and military

⁴¹ "Singapore Testing Our Patience with Baseless Accusations," *New Straits Times*, September 13, 2003.

⁴² S. Jayasankaran, "Well-Oiled," *Far Eastern Economic Review*, August 28, 2003.

⁴³ S. Jayasankaran, "Oil and Water," *Far Eastern Economic Review*, July 3, 2003.

⁴⁴ Jane Perlez, "Asian Leaders Find China a More Cordial Neighbor," *The New York Times*, 18 October, 2003.

⁴⁵ Alice D. Ba, "China and ASEAN: Re-navigating Relations for a 21st Century Asia," *Asia Survey*, August, 2003.

⁴⁶ Rommel Banlaoi, "Southeast Asian Perspectives on the Rise of China: Regional Security After 9/11," *Parameters*, Summer, 2003.

⁴⁷ J. Wong & S. Chan, "China-ASEAN Free Trade Agreement," *Asian Survey*, June, 2003.

cooperation. This is a change from what a U.S. official called “blunt and intemperate public remarks”⁴⁸ critical of the United States by former Prime Minister Mahathir, who generally subscribed to a view of the United States as a neo-colonial power strongly under the influence of a coterie of Zionist Jews.⁴⁹ In 1997, Mahathir speculated that international pressure on the ringgit was part of a Jewish plot. This caused some Members of Congress to threaten to pass a resolution calling on Mahathir to resign or apologize.⁵⁰ Such tensions continued in October 2003 when the United States condemned assertions made by outgoing Prime Minister Mahathir before the OIC that “Jews rule the world.”⁵¹ President Bush reportedly told Prime Minister Mahathir that such comments were “wrong and divisive” in a side meeting of the Asia-Pacific Economic Conference in Thailand later in October 2003.⁵²

The State Department Report of Human Rights Practices in Malaysia stated that while the Malaysian government generally respected the rights of its citizens, “serious problems remain” including police torture and killings, the excessive use of the ISA, prolonged pretrial detention, the lack of independence and impartiality of the judiciary in high profile cases, “government restrictions, pressure and intimidation” leading to a self-censored press, and restrictions on freedom of assembly.⁵³ Human Rights Watch has raised similar human rights concerns particularly over the use of the ISA to suppress political dissent in the name of fighting the war against terror.⁵⁴ Since 9/11, however, the Bush Administration has played down human rights issues and emphasized counter-terrorism cooperation, including extensive use of the ISA.

The change of administration in Washington and the increasingly perceived comity of interests post 9/11 improved the bilateral relationship beginning in 2001. Foreign Minister Syed Hamid Albar stated in January of 2001 that Malaysia was looking forward to closer ties with the United States when President Bush assumed office.⁵⁵ This sentiment was subsequently reiterated by Mahathir to the United States

⁴⁸ Prepared Statement of Matthew Daley, Deputy Assistant Secretary, Bureau of East Asian and Pacific Affairs, U.S. Department of State, As submitted to the Committee on International Relations House of Representatives, Subcommittee on Asia and the Pacific, March 26, 2003.

⁴⁹ Alan Sipress, “Malaysia Calls on Muslims to resist Jewish Influence,” *Washington Post*, October 17, 2003.

⁵⁰ “Malaysia,” in *Regional Surveys of the World: The Far East and Australasia*, (London: Europa Publications, 2002), p.732.

⁵¹ “U.S. Slams Mahathir Remark on Jews,” *The Age*, October 17, 2003.

⁵² “Bush-Malaysia,” *Voice of America*, 20 October, 2003.

⁵³ “Malaysia Country Report on Human Rights Practices,” Bureau of Democracy, Human Rights and Labor, U.S. Department of State, March 31, 2003.

⁵⁴ “Asian Security Talks Giving Green Light to Repression,” *Human Rights Watch*, June 16, 2003 and “Malaysia’s Internal Security Act and Suppression of Political Dissent: A Human Rights Backgrounder,” *Human Rights Watch*, undated.

⁵⁵ “Looking Forward to Warmer Ties in Post-Clinton Era,” *New Straits Times*, January 10, (continued...)

Ambassador to Malaysia in April 2001.⁵⁶ The 9/11 attacks against the United States were strongly criticized by former Prime Minister Mahathir, and the two nations subsequently began to work closely on counter-terror cooperation. Mahathir met with President Bush in Washington in May 2002, where they signed a Memorandum of Understanding on counter-terrorism. This new cooperation in a common cause helped the two nations move beyond the acrimonious exchanges that characterized the past, including what transpired in 1998⁵⁷ during the Asia-Pacific Cooperation Summit meeting in Kuala Lumpur, when then Vice President Gore expressed support for the political movement that arose in response to the arrest, under the Internal Security Act, of former Deputy Prime Minister Anwar Ibrahim on charges of corruption and sexual misconduct.⁵⁸ Some Malaysian officials have, in general terms, equated the ISA with the recently enacted USA PATRIOT Act in America.

Bilateral Trade

The United States is a key trade partner of Malaysia and absorbs between one fifth and one third of Malaysia's exports.⁵⁹ The United States has been Malaysia's largest trading partner since 1997.⁶⁰ Malaysia is the United States largest trading partner in the Association of Southeast Asian Nations (ASEAN). Malaysia was the United States' 11th largest source of imports and the 16th largest destination for American exports in 2003.⁶¹ The United States and Malaysia took their already strong trade relationship forward on May 10, 2004, when they signed a Trade and Investment Framework Agreement (TIFA). The TIFA is thought to be a precursor to a possible Free Trade Agreement.⁶² Badawi's move against corruption and the perception that he will be able to provide stability for Malaysia has led to increased foreign investment in Malaysia.⁶³ The Malaysian central bank revised its economic projection upward to a rate of growth of between 6% and 6.5% for 2004. This would be an increase over the 5.2% rate of growth for 2003.⁶⁴

⁵⁵ (...continued)
2001.

⁵⁶ Sarban Singh, "PM Hopes for Better Ties," *New Straits Times*, April 6, 2001.

⁵⁷ "Gore's Comments Protested to U.S. Envoy," *Chicago Tribune*, November 24, 1998.

⁵⁸ Ian Stewart, "Spin Doctors Needed to Counter US Critics, Anwar Sympathizers Rally Support for Trade Sanctions," *South China Morning Post*, Oct 30, 2000.

⁵⁹ U.S. Ambassador Huhtala, "U.S. Foreign and Defense Policies," Presented at the Malaysian Armed Forces Defense College, April 14, 2003.

⁶⁰ "External Trade Expanding," *Business Times*, Kuala Lumpur, September 13, 2003.

⁶¹ World Trade Atlas, 2004.

⁶² "Signing of U.S.-Malaysia TIFA Lauded," *Business Times*, May 15, 2004. See also Shankaran Nambiar, "FTA with the U.S. Makes Good Sense," *New Straits Times*, (Kuala Lumpur) March 20, 2004.

⁶³ "Badawi Seems Serious About Reform," *Business Week*, March 29, 2004.

⁶⁴ "Malaysia Braces for Positive 2004," *Agence France Presse*, March 28, 2004.

The United States exports more to Malaysia than it does to India or Russia. The United States is the largest foreign investor in Malaysia while Malaysia has direct investment of \$208 million in the United States.⁶⁵ Malaysia is the United States' tenth largest source of imports.⁶⁶ Some say the Trade and Investment Framework Agreement (TIFA) is a key development to an even closer trade relationship. United States-ASEAN Business Council President Bower has stated that such an arrangement could also promote prospects for a future bilateral free trade deal.⁶⁷ The Enterprise for ASEAN Initiative, announced in October 2002, "offers the prospect of Free Trade Agreements (FTA) with individual ASEAN nations" with the Singapore-U.S. FTA [<http://www.ustr.gov/new/fta/singapore/final.htm>] serving as a model for other FTAs.⁶⁸ Support for free trade agreements is not universal in the United States. Some have criticized free trade agreements for being too pro-business and for not including labor and environmental standards.⁶⁹

Despite their strong trade and investment ties, Malaysia and the United States have at times taken different approaches to international trade regimes. The United States promoted the Asia-Pacific Economic Cooperation (APEC) grouping, which was established in Canberra in 1989, and included the United States, Australia and New Zealand as well as nations of East and Southeast Asia. In 1990, Malaysia instead proposed the East Asian Economic Caucus as a regional trade grouping that would have been limited to Asian nations and would have excluded the United States. The ASEAN +3 group, which includes the 10 ASEAN states plus Japan, China and South Korea, is a similar Asian concept. Malaysia actively seeks foreign direct investment and benefits from expanding international trade. This did not prevent Malaysian Minister for Trade Rafidah Aziz from leading a walk-out of delegates of poorer countries at the Cancun meeting of the World Trade Organization in September of 2003. Walk-out participants were seeking cuts to United States and European farm subsidies.⁷⁰ On October 20, 2003, Former Prime Minister Mahathir urged developing countries to develop a new agenda for world trade talks. This move placed Malaysia in opposition to United States efforts to restart the World Trade Organization talks that collapsed in Cancun.⁷¹

⁶⁵ U.S. Bureau of Economic Analysis, 2003.

⁶⁶ "U.S.-Malaysia Trade Rises," *Malay Mail*, Kuala Lumpur, January 31, 2003.

⁶⁷ "United States Malaysian Trade Ties Intact Despite Differing Views on Iraq," *Business Times*, Kuala Lumpur, April 17, 2003.

⁶⁸ Ralph Ives, Assistant U.S. Trade Representative, Southeast Asia, "The Pacific and APEC," Testimony before the Committee on Senate Judiciary, July 14, 2003.

⁶⁹ Elizabeth Backer, "In Iowa, Trade Emerges as Hot Issue in 2004 Race," *The New York Times*, October 22, 2003. See also CRS Report RL31356, *Free Trade Agreements: Impact on U.S. Trade and Implications for U.S. Trade Policy*, William Cooper.

⁷⁰ James Langton, "Trade Talks Collapse as Poor Nations Walk Out," *Evening Standard*, September 15, 2003.

⁷¹ J. Harding and A. Kazmin, "Mahathir's Call for a New Trade Agenda Angers U.S." *Financial Times*, October 21, 2003.

Military Cooperation

Military cooperation between the United States and Malaysia includes high-level defense visits, training exchanges, military equipment sales, expert exchanges and combined exercises. Malaysian officers train in the United States under the International Military Education and Training (IMET) program and there is a student exchange program between the Malaysian Armed Forces Staff College and the U.S. Army Staff College at Fort Leavenworth. United States troops also travel to the Malaysian Army's Jungle Warfare Training Center in Pulada. Humanitarian assistance, disaster relief, anti-piracy, and counter-terrorism are areas that have been identified as areas of mutual interest. Between 15 and 20 U.S. Navy ships visit Malaysia annually. Malaysia also offered overflight to the United States during *Operation Enduring Freedom* in Afghanistan. Bilateral military exercises include all branches of the service.⁷² Malaysia has also bought significant military equipment from the United States, including F-18/D aircraft. The Malaysian government announced a decision to purchase 18 Russian Su-30 MKMs in May 2003. It is reported that the decision may not rule out further purchases of the Boeing F/A-18E/F.⁷³ Malaysia has an active military strength of 100,000 and a defense budget of \$2.9 billion.⁷⁴ Recent military procurement is reportedly seeking to narrow the technology gap with small, but well armed, Singapore.⁷⁵ Such purchases will also likely help Malaysia secure its maritime interests in the Strait of Malacca and the South China Sea.

Five United States warships and 1,200 U.S. military personnel went to Malaysia in mid-July 2004 to participate in a joint Cooperation Afloat Readiness and Training exercise with Malaysia in the South China Sea. The exercise is aimed at bolstering bilateral military ties and improving the ability of the United States Navy to operate in regional waters.⁷⁶ In an address in Malaysia in June 2004 Admiral Fargo pointed to shared concerns over “transnational problems” including “terrorism and proliferation, trafficking in humans and drugs and piracy” and emphasized that “we have tremendous respect for sovereignty.”⁷⁷

After some apparent miscommunication, Malaysia and the United States have apparently come to a mutual understanding on how best to secure the Straits of Malacca, which are territorial waters allowing only innocent passage under the Law of the Sea, from possible terrorist acts. An estimated one third of world trade and

⁷² Huhtala, April 14, 2003.

⁷³ M. Fiszer, “Malaysia Turns to Russia for New Fighters,” *Journal of Electronic Defense*, July, 2003.

⁷⁴ International Institute of Strategic Studies, *The Military Balance 2003* (Oxford: Oxford University Press, 2003).

⁷⁵ S. Jayasankaran, “Malaysia: Call for Arms,” *Far Eastern Economic Review*, May 16, 2003.

⁷⁶ “U.S. Navy Task Force to Head for RP,” *Manila Times*, July 14, 2004.

⁷⁷ Admiral Thomas Fargo, Commander, U.S. Pacific Command, Malaysia Media Roundtable, June 23, 2004.

half of the world's oil transits through the Straits of Malacca.⁷⁸ Testifying before the House Armed Services Committee on March 31, 2004, Admiral Thomas Fargo, Commander of the U.S. Pacific Command, identified the Straits of Malacca off Malaysia's coast as an area where there is concern that international terrorists might seek to attack shipping or seize a ship to use as a weapon. Fargo also reportedly suggested the idea that U.S. counterterrorism forces be positioned in the area to be able to deal with such a threat. This idea reportedly was announced without prior consultation with Malaysia, which reportedly responded "coolly" to the suggestion.⁷⁹ Malaysia reportedly prefers an arrangement, in the words of Defense Minister Najib, where "the actual interdiction will be done by the littoral states."⁸⁰ This approach was subsequently supported by Fargo during a June visit to Malaysia where he reportedly stated that U.S. cooperation would focus on intelligence sharing and capacity building to assist regional states in addressing the potential threat.⁸¹ On July 20, 2004, Malaysia, Indonesia, and Singapore began coordinated naval patrols of the Straits of Malacca.⁸²

Counterterrorism Cooperation

Malaysia is an effective and cooperative regional player in the war against terrorism. In May of 2002, the United States and Malaysia signed a declaration that provides a framework for counter-terrorism cooperation.⁸³ Malaysia arrested over 70 suspected JI members in 2002 and has agreed to freeze terrorist assets.⁸⁴ Malaysia is taking a leading regional role in the war against terror by establishing a regional counter-terrorism center in Kuala Lumpur that will facilitate access to counter-terror technology, information and training.⁸⁵ The concept for the center was announced in October 2002 following a meeting between President Bush and then Deputy Prime Minister Badawi at the APEC meeting in Mexico.⁸⁶ Malaysia has also begun

⁷⁸ "Malaysia Accepts U.S. Aid, But Not Patrol, In Strait," *International Herald Tribune*, June 22, 2004.

⁷⁹ "Indonesia, Malaysia Give Cool Response to Suggestion of U.S. Troops in Malacca Strait," *Voice of America Press Release*, April 7, 2004.

⁸⁰ "Malaysia, United States to Discuss Security in the Straits of Malacca," *International Custom Wire*, June 6, 2004.

⁸¹ See "U.S. to Render Assistance to Littoral States of Malacca Strait," *International Customwire*, June 23, 2004 and "U.S. Navy Task Force to Head for RP," *Manila Times*, July 14, 2004.

⁸² "Indonesia: Three Nations Patrol Straits," *Stratfor*, July 20, 2004.

⁸³ "Malaysia, USA Sign Anti-terror Declaration," *BBC Monitoring Service*, May 15, 2002.

⁸⁴ J. Chao, "Malaysia's War on Terror Worries Rights Advocates," *American Statesman*, Nov. 10, 2002.

⁸⁵ R. Hamsawi, "Local Funding for Anti-Terror Center," *New Straits Times*, April 3, 2003.

⁸⁶ "Malaysia: Minister Gives Details of ASEAN Anti-terror Centre Project," *BBC Monitoring Service*, April 2, 2003.

exchanges of counter-terror intelligence with Indonesia⁸⁷ and has offered to assist Thailand in tracking down Jemaah Islamiya elements thought to be hiding along the Malaysia-Thai border.⁸⁸ Malaysia also hosted the ASEAN Regional Forum Inter-sessional Meeting on Counter-Terrorism in March of 2003. [See CRS Report “Terrorism in Southeast Asia” RL31672 for further information on terrorism in Southeast Asia.]

In the introduction to the *Patterns of Global Terrorism 2003*, published in April 2004,⁸⁹ Coordinator for Counter-terrorism Ambassador Cofer Black emphasized the need to develop “sustained international political will and effective capacity building” to more effectively fight terrorism. Within this context Ambassador Black made special reference to Malaysia’s contribution to the war against terror in Asia. He identifies Malaysia’s opening of the Southeast Asia Regional Center for Counter-terrorism in August 2003 as a key example of counterterrorism capacity building in Asia. Other observers have questioned the degree to which the center has established its effectiveness. Prime Minister Badawi has continued Malaysia’s commitment to fight terrorism.⁹⁰ While attending a regional counterterror conference in Bali, Indonesia, in February 2004, U.S. Attorney General Ashcroft reportedly stated that the United States is very satisfied with the role that Malaysia has played in fighting terrorism and that Malaysia has provided a good example to countries in the region.⁹¹

During an address to a regional defense conference in Singapore in June 2004, Malaysian Defense Minister Najib Tun Razak admonished the West when he stated “Let there be no doubt, there is more (terrorism) to come if we continue to ignore the need for a balanced approach to this campaign against terror.... We are concerned that powerful states may not be going about this campaign in ways that will win the hearts and minds of millions of ordinary people worldwide.”⁹² Some observers view this exchange as highlighting differences in regional Southeast Asian states’ desires to include more “soft power” approaches to the war against terror as opposed to what they feel is an over reliance on “hard power” by the United States.

Malaysia’s counter-terror cooperation with other states is not without limits. Malaysia has criticized Australia for asserting the right to preemptive action against terrorists in foreign lands and has criticized the United States for supporting the Australian position.⁹³ Malaysian-American counter-terror cooperation reportedly involves consultation. Malaysia also allowed the United States to interview a

⁸⁷ M. Zulfakar, “KL-Jakarta Talks to Touch on Security,” *Nation*, August 28, 2003.

⁸⁸ Abdul Razak Ahmad, “Ready to Hunt JI Militants,” *New Straits Times*, August 27, 2003.

⁸⁹ United States Department of State, *Patterns of Global Terrorism*, 2003, April, 2004.

⁹⁰ “Malaysia Pledges Terror Fight,” *The Wall Street Journal*, November 4, 2003.

⁹¹ “U.S. Compliments Malaysia for Role in Anti-terrorism Efforts,” *Bernama Daily*, February 5, 2004.

⁹² “Malaysia Says U.S. Needs to be More Balanced in Its War Against Terrorism,” *International Customwire*, June 6, 2004.

⁹³ “Malaysia Expands Spat with Australia,” *Asian Wall Street Journal*, December 11, 2003.

Malaysian being held under the ISA in connection with the trial of Zacarias Moussouai.⁹⁴

Educational Ties

Over the past three decades, the United States has been a popular destination for Malaysian students. Since 1975, Malaysia has been one of the top 20 countries that have sent students to the United States. From 1981 to 1999 it was one of the top 10 sources of international students in America. Total Malaysian students in the United States peaked at 23,000 in 1985.⁹⁵ Student visa delays resulting from U.S. homeland security measures have hindered this educational exchange. Complications with the Student Exchange and Visitor Information System (SEVIS) reportedly have led to visa delays and declining foreign student numbers.⁹⁶ Some observers are concerned that as foreign student numbers drop the probability that future leaders of foreign countries, such as Malaysia, will be familiar with the United States will diminish.

Figure 1. Map of Malaysia



⁹⁴ Ambassador Huhtala, "United States Foreign and Defense Policies," United States Embassy, Kuala Lumpur, April 14, 2003.

⁹⁵ "U.S. Universities Remain a Top Destination for Malaysian Students," Education USA, [<http://usembassymalaysia.org>].

⁹⁶ H. Hollingsworth, "Foreign Student Enrollment Drops," *Associated Press*, October 3, 2003.